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Virgin America cleared

By Heather Murtagh

Virgin America was given the go-ahead to position itself for takeoff yesterday when the U.S. DOT gave the Burlingame-based company a tentative OK to fly if it makes major changes previously suggested, such as ousting CEO Fred Reid.

The Department of Transportation's tentative approval of Virgin America means the revised plan should meet U.S. ownership rules capping foreign control at 25 percent. The DOT accepted all the suggestions to cut the appearance of foreign influences and even added a few. Now Virgin America must finalize the numerous proposed changes in hopes of a final approval in anticipation of a mid-summer launch from San Francisco International Airport.

"We worked hard to address the department's initial concerns, and are pleased that they have recognized our extensive work and good faith commitment to meet and exceed those requirements," Reid said in a press release. "We plan to meet with our shareholders immediately to address the department's proposed conditions."

The DOT in December tentatively denied the Burlingame-based company rights to operate until it could prove 75 percent of the company is owned or controlled by U.S. citizens. Virgin America responded in January with a laundry list of concessions it was willing to make.

Virgin Group will be dropping a board of directors seat, now holding two of the eight voting positions. It gave up some decision-making rights and gave all of its 25 percent voting rights to a DOT-approved U.S. trustee. Virgin Group agreed to dump its CEO if requested. U.S. investors also pledged an additional \$20 million investment to Virgin America.

The approval is based on implementing all the proposed changes in addition to making organizational changes, amending various agreements and providing advance notice to the DOT should the carrier get loans from foreign investors.

This step forward is good news for local officials who have worked hard to promote the benefits of the locally-based airline.

"Obviously we're delighted. There's an ongoing effort to bring another new business, specifically an airline, to San Mateo County and SFO. We're hopeful that with the concession of replacing Fred Reid will totally eliminate any opposition. Fred was a good executive. He is a local person who would have done well. There's been obstacles for Virgin from day one. While going through the response period, Virgin said it was willing to do whatever it takes to get in the air," said Daniel Cruey, president of the San Mateo County Economic Development Association, or SAMCEDA.

The airline is estimated to create 3,000 jobs — 1,600 in the Bay Area — and generate \$140 million annually in salaries, \$240 million in business revenue and \$24 million in state and local taxes, according to an analysis by the Bay Area Economic Forum.

California has no airline headquartered and there is no significant low-fare airline based at San Francisco International Airport, Gov. Arnold Schwarzenegger said in a statement.

"Virgin America intends to operate out of the \$914 million international terminal located there, and I look forward to having them bring new jobs, low fares and more service to our state," Schwarzenegger said.

Local leaders were excited by the approval news.

Burlingame Mayor Terry Nagel is thrilled, adding the positive effects on the entire Bay Area.

U.S. Rep. Tom Lantos, D-San Mateo, echoed Nagel's sentiments but emphasized the need to balance the needs of labor.

"This brings us one step closer to major growth in an important sector of our region's economy," Lantos said in a prepared statement. "There remain many issues to settle, including questions raised with respect to labor. But it is a good sign that Virgin America has shown flexibility sufficient to overcome this initial obstacle. I hope the company will now begin to work closely with organized labor to ensure good jobs in every way."

San Mateo County Supervisor Jerry Hill hopes Virgin America takes this tentative approval as an opportunity to raise the labor standards.

Virgin America is the third domestic airline planning to take off from SFO this year, said SFO spokesman Mike McCarron. JetBlue is set to take off in May, while Southwest is scheduled for the late summer.

"This will bring a lot of revenue. It's terrific news. It means more jobs, more revenue, more options," he said. "And the airlines will be user newer equipment so it'll be quieter."

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